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ALLEN PARISH HOSPITAL

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 1/29/03

FOR THE YEARS ENDED  
JUNE 30, 2002, 2001 AND 2000

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Years Ended June 30, 2002, 2001 and 2000

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Hospital Service District No. 3  
Parish of Allen, State of Louisiana  
Kinder, Louisiana

We have audited the accompanying general purpose financial statements of Hospital Service District No. 3, Parish of Allen, State of Louisiana, Allen Parish Hospital (the "District"), a component unit of the Allen Parish Police Jury, as of and for the years ended June 30, 2002, 2001 and 2000, as listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 3, Parish of Allen, Allen Parish Hospital, as of and for the years ended June 30, 2002, 2001 and 2000, and the results of its operations and cash flows for the periods then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated November 6, 2002, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

Board of Commissioners  
Hospital Service District No. 3  
Parish of Allen, State of Louisiana  
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The accompanying general purpose financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 13 to the general purpose financial statements, the District has had significant deficiencies noted during a state survey, a limited number of active medical staff physicians, and decreasing patient utilization of the hospital. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 13. The general purpose financial statements do not include any adjustments that might result from the outcomes of these uncertainties.

Our audits were conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of Hospital Service District No. 3, Parish of Allen, Allen Parish Hospital. Such information has been subjected to the auditing procedures applied in the audits of the general purpose financial statements, and in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.



Certified Public Accountants

November 6, 2002

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Balance Sheets - Unrestricted Fund  
June 30, 2002, 2001 and 2000

	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 988,673	\$ 1,051,451	\$ 723,572
Investments	184,234	176,851	24,661
Patient accounts receivable, net of estimated uncollectibles (Note 4)	362,121	241,481	393,192
Estimated Medicare and Medicaid program settlements	-0-	-0-	2,142
Inventory	138,215	121,252	115,839
Prepaid expenses	<u>38,852</u>	<u>24,535</u>	<u>8,529</u>
Total current assets	<u>1,712,095</u>	<u>1,615,570</u>	<u>1,267,935</u>
Property, plant and equipment, net (Note 5)	802,342	920,576	829,892
Assets limited as to use (Note 6)	-0-	-0-	125,000
Other assets	<u>15,000</u>	<u>-0-</u>	<u>1,242</u>
Total assets	<u>\$ 2,529,437</u>	<u>\$ 2,536,146</u>	<u>\$ 2,224,069</u>
<b>Liabilities and Fund Balance</b>			
Current liabilities:			
Current maturities of long-term debt (Note 8)	\$ 81,105	\$ 90,035	\$ 79,977
Accounts payable	400,642	501,439	676,568
Accrued expenses	110,602	91,486	91,765
Estimated Medicare and Medicaid program settlements	<u>365,083</u>	<u>346,378</u>	<u>-0-</u>
Total current liabilities	<u>957,432</u>	<u>1,029,338</u>	<u>848,310</u>
Long-term debt, net of current maturities (Note 8)	<u>189,450</u>	<u>239,919</u>	<u>225,799</u>
Total liabilities	<u>1,146,882</u>	<u>1,269,257</u>	<u>1,074,109</u>
Fund balance:			
Unrestricted	<u>1,382,555</u>	<u>1,266,889</u>	<u>1,149,960</u>
Total liabilities and fund balance	<u>\$ 2,529,437</u>	<u>\$ 2,536,146</u>	<u>\$ 2,224,069</u>

See accompanying notes to financial statements.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Statements of Operations - Unrestricted Fund  
Years Ended June 30, 2002, 2001 and 2000

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Revenue:			
Net patient service revenue	\$ 3,592,281	\$ 3,415,502	\$ 4,189,998
Maintenance taxes	103,405	87,404	89,707
Other	<u>80,446</u>	<u>150,988</u>	<u>154,630</u>
Total revenue	<u>3,776,132</u>	<u>3,653,894</u>	<u>4,434,335</u>
Expenses:			
Salaries and benefits	2,048,987	1,994,000	1,807,660
Medical supplies and drugs	196,667	189,674	232,529
Supplies	396,889	353,309	299,561
Professional, management and consulting fees	364,203	392,671	893,875
Other expenses	321,450	366,654	372,949
Insurance	123,199	92,101	96,578
Interest expense	24,776	30,351	36,699
Depreciation and amortization	134,852	119,800	115,698
Provision for bad debts	<u>70,389</u>	<u>91,831</u>	<u>825,141</u>
Total expenses	<u>3,681,412</u>	<u>3,630,391</u>	<u>4,680,690</u>
Operating income (loss)	94,720	23,503	(246,355)
Nonoperating income			
Interest income	<u>20,946</u>	<u>43,426</u>	<u>21,053</u>
Excess of revenues over expenses	\$ <u>115,666</u>	\$ <u>66,929</u>	\$ <u>(225,302)</u>

See accompanying notes to financial statements.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Statements of Changes in Fund Balance  
Years Ended June 30, 2002, 2001 and 2000

	<u>UNRESTRICTED</u>
Fund balance, June 30, 1999	\$ 1,375,262
Excess of revenues over expenses	<u>(225,302)</u>
Fund balance, June 30, 2000	1,149,960
Excess of revenues over expenses	66,929
Transfer from Allen Parish Police Jury	<u>50,000</u>
Fund balance, June 30, 2001	1,266,889
Excess of revenues over expenses	<u>115,666</u>
Fund balance, June 30, 2002	\$ <u>1,382,555</u>

See accompanying notes to financial statements.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Statements of Cash Flows - Unrestricted Funds  
Years Ended June 30, 2002, 2001 and 2000

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Cash flows from operating activities			
Operating income (loss)	\$ 94,720	\$ 23,503	\$ (246,355)
Interest expense considered capital financing activity	24,776	30,351	36,699
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	134,852	119,800	115,698
Provision for bad debts	70,389	91,831	825,141
Transfer from Allen Parish Police Jury	-0-	50,000	-0-
Changes in			
Patient accounts receivable	(191,029)	59,880	(798,989)
Due from related party	-0-	-0-	798,131
Estimated Medicare and Medicaid program settlements	18,705	348,520	398,781
Inventory	(16,963)	(5,413)	23,629
Prepaid expenses	(14,317)	(16,006)	8,555
Deposit	-0-	-0-	8,000
Accounts payable	(100,797)	(175,129)	(906,360)
Accrued expenses	<u>19,116</u>	<u>(279)</u>	<u>(12,125)</u>
Net cash used by operating activities	<u>39,452</u>	<u>527,058</u>	<u>250,805</u>
Cash flows from investing activities			
Interest on investments	20,946	43,426	21,053
Assets whose use is limited	-0-	125,000	-0-
Loans to physicians	(15,000)	-0-	-0-
Cash invested in certificates of deposit	<u>(7,383)</u>	<u>(152,190)</u>	<u>(4,661)</u>
Net cash provided by investing activities	\$ <u>(1,437)</u>	\$ <u>16,236</u>	\$ <u>16,392</u>

See accompanying notes to financial statements.



Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Statements of Cash Flows - Unrestricted Funds (Continued)  
Years Ended June 30, 2002, 2001 and 2000

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Cash flows from capital and related financing activities			
Principal payments on long-term debt	\$ (59,399)	\$ (59,599)	\$ (64,160)
Interest expense on long-term debt	(24,776)	(30,351)	(36,699)
Proceeds from long-term debt	-0-	20,000	-0-
Acquisition of capital assets	<u>(16,618)</u>	<u>(145,465)</u>	<u>(6,841)</u>
Net cash used by capital and related financing activities	<u>(100,793)</u>	<u>(215,415)</u>	<u>(107,700)</u>
Net increase (decrease) in cash and cash equivalents	(62,778)	327,879	159,497
Cash and cash equivalents, beginning of year	<u>1,051,451</u>	<u>723,572</u>	<u>564,075</u>
Cash and cash equivalents, end of year	\$ <u>988,673</u>	\$ <u>1,051,451</u>	\$ <u>723,572</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ <u>24,945</u>	\$ <u>30,553</u>	\$ <u>36,882</u>

The Hospital entered into various capital lease obligations for \$63,778 in 2001.

See accompanying notes to financial statements.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 2002, 2001 and 2000

**NOTE 1 - ORGANIZATION AND OPERATIONS**

**Legal Organization**

The Allen Parish Hospital Service District No. 3 (the "Hospital" or the "District") was created by an ordinance of the Allen Parish Police Jury.

The Hospital is a political subdivision of the Allen Parish Police Jury whose jurors are elected officials. The Hospital's commissioners are appointed by the Allen Parish Police Jury. As the governing authority of the Parish, for reporting purposes, the Allen Parish Police Jury is the financial reporting entity for the Hospital. Accordingly, the Hospital was determined to be a component unit of the Allen Parish Police Jury based on statement No. 14 of the National Committee on Governmental Accounting. The accompanying financial statements present information only on the funds maintained by the governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity.

**Nature of Business**

The District provides outpatient, skilled nursing (through "swing-beds"), home health, acute inpatient and psychiatric hospital services.

**Hospital Land**

The land on which the Hospital was built was donated by Powell Lumber Company to Allen Parish Hospital Service District No. 3. The donation was made with the restriction that the land is to be used primarily as a site for a public hospital and should the donee or their successors or assignees fail to use the land for a public hospital, the title shall revert to Powell Lumber Company.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Enterprise Fund**

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 2002, 2001 and 2000

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Method of Accounting

The Hospital uses the accrual method of accounting. Revenue is recorded when earned and expenses are recorded when incurred. Hospital accounting and reporting procedures also conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, the AICPA Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants, and standards set by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking, money market accounts and certificates of deposit with original maturities of 90 days or less. Certificates of deposit with original maturities of more than 90 days are classified as investments. Cash and cash equivalents are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

Credit Risk

The District provides medical care primarily to Allen Parish residents and grants credit to patients substantially all of whom are local residents.

The Hospital's estimate of collectibility is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

Significant Concentration of Economic Dependence

The Hospital has an economic dependence on a small number of staff physicians who admit over 90% of the Hospital's patients.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 2002, 2001 and 2000

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Third Party Cost-Based Revenues

Contractual agreements with governmental agencies provide for reimbursement based on a fixed price per patient stay based upon the patient's primary diagnosis for Medicare inpatient services and on a fixed price per patient day for Medicaid inpatient services. Medicaid outpatient and Medicare inpatient psychiatric services are reimbursed based upon the lesser of reasonable cost (subject to certain limits) or charges to patients. Medicare home health reimbursement changed to prospective payment system October 1, 2000. Medicare outpatient reimbursement changed to prospective system effective August 1, 2000. Small rural hospitals are afforded a "hold harmless" status whereby the Hospital will receive the greater of the prospective payments or cost based reimbursement with reduction based upon the District's 1996 payment to cost ratio for the next three years. These reimbursements are subject to audit and retroactive adjustments by each payor.

Inventory

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market basis.

Income Taxes

The entity is a political subdivision and exempt from taxation.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost for purchased assets or at fair market value on the date of any donation. The Hospital uses straight-line depreciation for financial reporting and third party reimbursement. The following estimated useful lives are generally used.

Buildings	12 to 40 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	3 to 20 years

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred.

The cost of assets retired or otherwise disposed of and related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are credited or charged to operations currently.

NOTE 3 - DEPOSITS

Included in cash and cash equivalents, investments and assets whose use is limited are cash on hand, deposits with the depository banks for money market accounts, checking accounts and certificates of deposit. For all deposits, the market value and carrying value are the same. The deposits are insured by the FDIC and collateral held by the pledging financial institution's trust departments in the District's name.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 2002, 2001 and 2000

**NOTE 4 - ACCOUNTS RECEIVABLE**

A summary of accounts receivable is presented below:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net patient accounts receivable	\$ 434,948	\$ 339,152	\$ 535,295
Other receivables	<u>173</u>	<u>329</u>	<u>1,897</u>
	435,121	339,481	537,192
Estimated uncollectibles	<u>(73,000)</u>	<u>(98,000)</u>	<u>(144,000)</u>
Total	<u>\$ 362,121</u>	<u>\$ 241,481</u>	<u>\$ 393,192</u>

The Hospital generated a substantial portion of its charges from Medicare and Medicaid programs at discounted rates. The following is a summary of gross Medicare and Medicaid patient charges:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Medicare patients	\$ 2,321,475	\$ 2,676,218	\$ 2,700,530
Medicaid patients	<u>4,055,987</u>	<u>2,779,893</u>	<u>2,271,185</u>
Total	<u>\$ 6,377,462</u>	<u>\$ 5,456,111</u>	<u>\$ 4,971,715</u>
Percent of all patients	<u>94%</u>	<u>87%</u>	<u>78%</u>

The Hospital received interim amounts of \$187,926, \$428,659, and \$274,514 for Medicaid and self-pay uncompensated care services for the years ended June 30, 2002, 2001 and 2000, respectively. The interim amounts received are based upon uncompensated cost incurred in previous years. Current regulations require retroactive audit of the claimed uncompensated cost and comparison to the interim amounts paid by Medicaid in each fiscal year. Any overpayments will be recouped by Medicaid. Management estimated that the Hospital was overpaid by \$288,000 and \$55,000 during the years ended June 30, 2001 and 2000, respectively and has made provisions for such recoupments. To the extent management's estimates differ from actual results, the differences will be used to adjust income for the period when differences arise.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 2002, 2001 and 2000

**NOTE 5 - PROPERTY, PLANT AND EQUIPMENT**

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2002.

		<u>ASSET COST</u>		
	June 30, 2001	Additions	Deductions	June 30, 2002
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	30,617	-0-	-0-	30,617
Buildings	1,395,722	6,791	-0-	1,402,513
Fixed equipment	58,519	1,813	-0-	60,332
Major movable equipment	<u>1,433,414</u>	<u>8,014</u>	<u>-0-</u>	<u>1,441,428</u>
Total	<u>\$ 2,937,822</u>	<u>\$ 16,618</u>	<u>\$ -0-</u>	<u>\$ 2,954,440</u>

		<u>ACCUMULATED DEPRECIATION</u>		
	June 30, 2001	Additions	Deductions	June 30, 2002
Land improvements	\$ 28,836	\$ 588	\$ -0-	\$ 29,424
Buildings	831,074	42,692	-0-	873,766
Fixed equipment	49,451	2,646	-0-	52,097
Major movable equipment	<u>1,107,885</u>	<u>88,926</u>	<u>-0-</u>	<u>1,196,811</u>
Total	<u>\$ 2,017,246</u>	<u>\$ 134,852</u>	<u>\$ -0-</u>	<u>\$ 2,152,098</u>

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2001.

		<u>ASSET COST</u>		
	June 30, 2000	Additions	Deductions	June 30, 2001
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	30,617	-0-	-0-	30,617
Buildings	1,382,720	13,002	-0-	1,395,722
Fixed equipment	58,519	-0-	-0-	58,519
Major movable equipment	<u>1,237,175</u>	<u>196,239</u>	<u>-0-</u>	<u>1,433,414</u>
Total	<u>\$ 2,728,581</u>	<u>\$ 209,241</u>	<u>\$ -0-</u>	<u>\$ 2,937,822</u>



Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 2002, 2001 and 2000

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	June 30, 2000	<u>ACCUMULATED DEPRECIATION</u>		June 30, 2001
		<u>Additions</u>	<u>Deductions</u>	
Land improvements	\$ 28,248	\$ 588	\$ -0-	\$ 28,836
Buildings	790,068	41,006	-0-	831,074
Fixed equipment	46,906	2,545	-0-	49,451
Major movable equipment	<u>1,033,467</u>	<u>74,418</u>	<u>-0-</u>	<u>1,107,885</u>
Total	<u>\$ 1,898,689</u>	<u>\$ 118,557</u>	<u>\$ -0-</u>	<u>\$ 2,017,246</u>

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2000.

	June 30, 1999	<u>ASSET COST</u>		June 30, 2000
		<u>Additions</u>	<u>Deductions</u>	
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	30,617	-0-	-0-	30,617
Buildings	1,382,720	-0-	-0-	1,382,720
Fixed equipment	58,519	-0-	-0-	58,519
Major movable equipment	<u>1,251,017</u>	<u>6,841</u>	<u>20,683</u>	<u>1,237,175</u>
Total	<u>\$ 2,742,423</u>	<u>\$ 6,841</u>	<u>\$ 20,683</u>	<u>\$ 2,728,581</u>

	June 30, 1999	<u>ACCUMULATED DEPRECIATION</u>		June 30, 2000
		<u>Additions</u>	<u>Deductions</u>	
Land improvements	\$ 27,422	\$ 825	\$ -0-	\$ 28,247
Buildings	748,685	41,381	-0-	790,066
Fixed equipment	44,237	2,670	-0-	46,907
Major movable equipment	<u>987,059</u>	<u>67,093</u>	<u>20,683</u>	<u>1,033,469</u>
Total	<u>\$ 1,807,403</u>	<u>\$ 111,969</u>	<u>\$ 20,683</u>	<u>\$ 1,898,689</u>

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 2002, 2001 and 2000

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)

A summary of assets held under capital leases, which are included in property, plant and equipment, at June 30 follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Equipment	\$ 330,931	\$ 330,931	\$ 267,153
Accumulated depreciation	<u>(223,009)</u>	<u>(169,396)</u>	<u>(120,313)</u>
Total	<u>\$ 107,922</u>	<u>\$ 161,535</u>	<u>\$ 146,840</u>

NOTE 6 - ASSETS LIMITED AS TO USE

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited is summarized in the following table. Investments are stated at cost that approximates market.

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Under malpractice funding arrangement - held by trustee:			
Certificates of deposit	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>125,000</u>

NOTE 7 - ACCRUED EXPENSES

A summary of accrued expenses follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Salaries	\$ 104,254	\$ 85,104	\$ 85,155
Payroll taxes	4,249	4,123	3,824
Other	<u>2,099</u>	<u>2,259</u>	<u>2,786</u>
Total	<u>\$ 110,602</u>	<u>\$ 91,486</u>	<u>\$ 91,765</u>



Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 2002, 2001 and 2000

**NOTE 8 - LONG-TERM DEBT**

A summary of long-term debt, including capital lease obligations, at June 30, 2002, 2001 and 2000, follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
5.05 percent Certificates of Indebtedness, Series 1998, due March 1, 2007, collateralized by a pledge of tax revenues	\$ 62,000	\$ 72,000	\$ 82,000
8.75 percent note payable, 60 monthly payments of \$359.01, collateralized by nurses call system, with a book value of \$17,667 at June 30, 2002	15,272	19,378	-0-
9.00 percent note payable due September 30, 2011, unsecured	75,591	80,543	85,070
Capital lease obligations, at varying rates of imputed interest from 9.25 percent to 24.60 percent collateralized by leased equipment with a book value of \$107,922 at June 30, 2002	<u>117,692</u>	<u>158,033</u>	<u>138,706</u>
Total long-term debt	270,555	329,954	305,776
Less current portion of long-term debt	<u>81,105</u>	<u>90,035</u>	<u>79,977</u>
Long-term debt, net of current maturities	<u>\$ 189,450</u>	<u>\$ 239,919</u>	<u>\$ 225,799</u>

Scheduled principal repayments on long-term and payments on capital obligations for the next five years are as follows:

<u>Year Ending June 30,</u>	<u>Long-Term Debt</u>	<u>Capital Lease Obligations</u>
2003	\$ 20,469	\$ 70,038
2004	21,985	35,550
2005	22,665	18,879
2006	23,684	11,041
2007	21,812	-0-
2008 - 2011	<u>42,248</u>	<u>-0-</u>
Totals	<u>\$ 152,863</u>	135,508
Less amount representing interest on capital lease obligations		<u>17,816</u>
Total		<u>\$ 117,692</u>

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 2002, 2001 and 2000

NOTE 8 - LONG-TERM DEBT (Continued)

The assets and liabilities under capital leases are recorded at the fair value of the asset. The assets are depreciated over their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense.

NOTE 9 - OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rental charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2002, that have initial or remaining lease terms in excess of one year.

<u>Year Ending June 30</u>	<u>Amount</u>
2003	\$ 6,939
2004	6,939
2005	6,361
2006	<u>-0-</u>
Total minimum lease payments	<u>\$ 20,239</u>

NOTE 10 - COMPENSATED ABSENCES

Employees of the Hospital are entitled to paid days off and sick days depending on length of service. The Hospital charged operations for accrued paid days off and vested sick pay of \$38,280, \$31,263 and \$37,301 in 2002, 2001 and 2000, respectively. It is impracticable to estimate the amount of compensation for future unvested sick pay and, accordingly, no liability has been recorded in the accompanying financial statements. The Hospital's policy is to recognize the cost of unvested sick pay when actually paid to employees.

NOTE 11 - PROFESSIONAL LIABILITY RISK

The District participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the District is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the Patient's Compensation Fund ("PCF"), the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limited the PCF's exposure to \$400,000 per occurrence.

The District has acquired additional coverage for professional medical malpractice liability through a private insurance carrier by purchasing a claims-made policy.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 2002, 2001 and 2000

**NOTE 12 - CONTINGENCIES**

The District evaluates contingencies based upon the best available evidence. The District believes that no allowances for loss contingencies are considered necessary. To the extent that resolution of contingencies result in amounts which vary from the District's estimates, future earnings will be charged or credited.

*The principal contingencies are described below:*

Third Party Government-Based Revenues (Note 4) - Cost reimbursements are subject to examination by agencies administering the programs. Effective October 1, 1983, the Medicare program discontinued its cost-based reimbursement system for inpatient services. Under the program, the District receives a fixed fee for each patient, which is determined by the government. The District is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations, and general instructions of those programs. The amount of such adjustments cannot be determined.

Federal and state budget restraints are increasing the time period taken to pay Medicare and Medicaid claims and the Medicaid program is delaying payment of year-end settlements.

The healthcare industry is subject to numerous laws and regulations of Federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Professional Liability Risk (Note 11) - The District is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund.

Litigation and Other Matters - Various claims in the ordinary course of business are pending against the District. In the opinion of management and counsel, insurance is sufficient to cover adverse legal determinations in those cases where a liability can be measured.

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Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Notes to Financial Statements  
Years Ended June 30, 2002, 2001 and 2000

**NOTE 13 - GOING CONCERN**

There are conditions or events that, when considered in the aggregate, indicate there could be substantial doubt about the District's ability to continue as a going concern for a reasonable period of time. These conditions or events include, but are not limited to the following: (1) low patient utilization of the Hospital (2) limited number of active medical staff doctors and (3) significant deficiencies noted during a state survey.

Management's plans for dealing with the adverse effects of the conditions or events identified in the previous paragraph include, but are not limited to, the continued efforts to attract physicians to increase patient utilization of the Hospital, research the possibility of becoming a Critical Access Hospital and correcting all outstanding deficiencies noted in the state survey.

## SUPPLEMENTAL INFORMATION

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Schedules of Net Patient Service Revenue  
Years Ended June 30, 2002, 2001 and 2000

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Routine services			
Adult and pediatric	\$ 118,295	\$ 162,115	\$ 159,575
Psychiatric	4,337,360	3,690,555	3,197,000
Swing-bed	<u>9,070</u>	<u>5,265</u>	<u>5,400</u>
Total routine services	<u>4,464,725</u>	<u>3,857,935</u>	<u>3,361,975</u>
Other professional services			
Radiology	192,679	216,079	192,565
Nuclear medicine	43,750	43,492	109,446
Laboratory	435,373	518,308	574,656
Blood	6,124	16,715	9,287
Intravenous therapy	48,550	74,175	73,418
Respiratory therapy	82,861	57,861	73,610
Electrocardiology	55,800	59,346	66,725
Central supply	106,960	156,485	134,445
Pharmacy	666,636	617,899	548,202
Partial day psychiatric	-0-	-0-	537,409
Sleep lab	9,000	-0-	-0-
Observation room	3,470	14,070	11,920
Contract physician	210,127	343,730	356,099
Home health visits	398,640	417,740	284,800
Oberlin health clinic	77,569	13,535	-0-
Kid med	<u>16,135</u>	<u>4,930</u>	<u>3,682</u>
Total other professional services	<u>2,353,674</u>	<u>2,554,365</u>	<u>2,976,264</u>
Gross patient service revenues	<u>6,818,399</u>	<u>6,412,300</u>	<u>6,338,239</u>
Contractual adjustments	3,362,163	3,045,332	2,385,838
Medicaid disproportionate share payments	(187,926)	(85,659)	(274,514)
Discounts	<u>51,881</u>	<u>37,125</u>	<u>36,917</u>
Total deductions from revenue	<u>3,226,118</u>	<u>2,996,798</u>	<u>2,148,241</u>
Net patient service revenue	<u>\$ 3,592,281</u>	<u>\$ 3,415,502</u>	<u>\$ 4,189,998</u>

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Schedules of Other Operating Revenue  
Years Ended June 30, 2002, 2001 and 2000

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Meals	\$ 9,127	\$ 10,141	\$ 8,287
Medical records transcript fees	2,812	2,672	1,606
Miscellaneous rental	5,525	7,800	7,150
Related party 60% loss (income) share	-0-	-0-	(230,251)
Grant income	-0-	105,000	50,000
Debt forgiveness	50,345	-0-	300,000
Other income	<u>12,637</u>	<u>25,375</u>	<u>17,838</u>
Total other operating revenue	\$ <u>80,446</u>	\$ <u>150,988</u>	\$ <u>154,630</u>

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Schedules of Operating Expenses - Salaries and Benefits  
Years Ended June 30, 2002, 2001 and 2000

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Administration	\$ 151,951	\$ 155,513	\$ 166,937
Plant operations and maintenance	50,729	52,952	51,075
Housekeeping	34,729	34,169	32,503
Dietary and cafeteria	80,738	77,131	81,375
Medical records	30,334	23,817	31,669
Nursing services, acute care	298,233	335,496	275,540
Psychiatric unit	572,260	563,059	530,185
Radiology	82,026	69,130	63,451
Laboratory	58,425	49,019	628
Respiratory therapy	48,871	34,314	-0-
Central supply	9,171	11,640	8,298
Pharmacy	7,959	10,288	7,326
Partial day psychiatric	-0-	-0-	60,612
Home health	185,049	165,209	137,875
Oberlin health clinic	148,603	37,778	-0-
Contract physician	<u>139,923</u>	<u>218,965</u>	<u>234,803</u>
 Total salaries	 1,899,001	 1,838,480	 1,682,277
 Payroll taxes	 <u>149,986</u>	 <u>155,520</u>	 <u>125,383</u>
 Total salaries and benefits	 <u>\$ 2,048,987</u>	 <u>\$ 1,994,000</u>	 <u>\$ 1,807,660</u>



Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Schedules of Operating Expenses - Other Expenses  
Years Ended June 30, 2002, 2001 and 2000

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Legal and accounting	\$ 44,656	\$ 52,179	\$ 81,998
Repairs and maintenance	51,583	57,413	37,684
Telephone	61,599	65,558	57,376
Utilities	61,530	76,192	63,501
Travel	47,522	50,959	53,163
Rentals	28,448	30,465	36,060
Dues and subscriptions	11,853	14,382	5,328
Miscellaneous	<u>14,259</u>	<u>19,506</u>	<u>37,839</u>
Total other expenses	\$ <u>321,450</u>	\$ <u>366,654</u>	\$ <u>372,949</u>

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital  
Schedules of Per Diem and  
Other Compensation Paid to Board Members  
Years Ended June 30, 2002, 2001 and 2000

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Board Members:			
Mr. E. O. Alexander	\$ N/A	\$ N/A	\$ 40
Mr. Jimmy Savoie	N/A	N/A	200
Mr. Cecil Ashford	N/A	N/A	400
Dr. Peggy Allemand	480	440	N/A
Mr. Danny Taylor	N/A	N/A	160
Mr. Charles Welch	N/A	N/A	320
Mrs. Carla Marcantel	440	480	400
Mr. Matt Martin	480	480	240
Mr. Ike Fawcett	N/A	N/A	40
Mr. Ronald Craiger	480	440	80
Mr. Thomas Nevils	360	280	40
Mr. Jessie Chaffin	440	440	80
Mr. Richard Hollier	<u>400</u>	<u>440</u>	<u>40</u>
Total	\$ <u>3,080</u>	\$ <u>3,000</u>	\$ <u>2,040</u>

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners  
Hospital Service District No. 3  
Parish of Allen, State of Louisiana  
Kinder, Louisiana

We have audited the general purpose financial statements of the Allen Parish Hospital Service District No. 3 (the "District"), as of and for the years ended June 30, 2002, 2001 and 2000, and have issued our report thereon dated November 6, 2002. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our test disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Commissioners  
Hospital Service District No. 3  
Parish of Allen, State of Louisiana  
Page Two

This report is intended solely for the information and use of the Board of Commissioners, management and the office of the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

*Lester, Miller & Wells*

Certified Public Accountants

November 6, 2002

Allen Parish Hospital  
Auditors' Comments and Recommendations  
Year Ended June 30, 2002

1999 Internal Control Findings and Recommendations

1. Finding: Medicare requires vendor payables to be liquidated within one year of the balance sheet date, unless the provider can obtain an exception from the intermediary. During the year ended June 30, 1999, we noticed that the District has delayed payments to some vendor accounts.

Recommendation: We recommend paying vendors timely or obtain a written exception for payables that cannot be paid within one year of the balance sheet date.

Response: The balances owed to vendors are being negotiated for timely settlement.

Resolution: This matter is partially resolved. One vendor payable at June 30, 2001 was not liquidated within one year of the balance sheet date.

Allen Parish Hospital  
Auditors' Comments and Recommendations  
Year Ended June 30, 2002

2000 Internal Control Findings and Recommendations

1. Finding: In an open letter to Medicare and Medicaid providers and in numerous public statements, the U. S. Health and Human Services Inspector General and others in her office have made it clear that such providers should (but are not required) establish corporate compliance programs. The Office of Inspector General ("OIG") generally has taken the position that indifference (a failure to pro-actively maintain a system to avoid errors) that results in violations is similar to intentional violations and that lack of knowledge is not a defense. The OIG has stated that, when it finds a violation it will make every effort to enforce the maximum penalty when corporate compliance plan is not in place. When such a plan is in place (and actually working in the daily operations as opposed to being a document on a shelf), it has stated that it will give consideration to the providers' efforts to avoid violations. The District has not implemented a corporate compliance program.

Recommendation: We recommend that the District implement and maintain a corporate compliance plan.

Response: The District is currently developing a corporate compliance program.

Resolution: This matter has been resolved.

Allen Parish Hospital  
Auditors' Comments and Recommendations  
Year Ended June 30, 2002

2001 Compliance Findings and Recommendations

1. Finding: The District entered into a capital lease agreement without obtaining a non-appropriation clause or State Bond Commission approval. Additionally, the District entered into a note payable agreement without obtaining State Bond Commission approval.

Recommendation: We recommend obtaining either non-appropriation clause on all new capital lease agreements or State Bond Commission approval. We also recommend obtaining State Bond Commission approval on the note payable.

Response: Management will obtain a non-appropriation clause or State Bond Commission approval for the capital lease agreement and monitor new agreements to ensure the clause is present. They will obtain State Bond Commission approval for the note payable and monitor future note payables to ensure approval is present.

Resolution: This matter has been resolved.

Allen Parish Hospital  
Auditors' Comments and Recommendations  
Year Ended June 30, 2002

2002 Compliance Findings and Recommendations

1. Finding: The District was found to be out of compliance with Medicare Conditions of Participation. Termination action was taken against the District.

Recommendation: We recommend implementing plans and procedures to correct the deficiencies and the processes that led to the deficiencies.

Response: Management is reviewing the deficiencies and the reasons they occurred. They will plan and implement corrective procedures to clear the deficiencies and prevent non compliance in the future. They will present their plan to the Department of Health and Human Services for approval.

Resolution: This matter has been resolved.